DOCUMENT RESUME

ED 306 425 CE 052 397

TITLE	A Guide to Planning Your Retirement Finances. A Report by the Chairman of the Subcommittee on Retirement Income and Employment of the Select Committee on Aging. House of Representatives, One Hundred First Congress, First Session.
INSTITUTION	Congress of the U.S., Washington, D.C. House Select Committee on Aging.
REPORT NO	House-Comm-Pub-100-710
PUB DATE	Jan 89
NOTE	46p.
AVAILABLE FROM	Superintendent of Documents, Congressional Sales Office, U.S. Government Printing Office, Washington, DC 20402.
PUB TYPE	Guides - General (050)
EDRS PRICE	MF01/PC02 Plus Postage.
DESCRIPTORS	Adults; *Budgeting; *Estate Planning; *Income; Insurance; Long Range Planning; *Money Management; Preretirement Education; *Retirement; *Retirement Benefits
IDENTIFIERS	Congress 101st

ABSTRACT

This committee print provides workers with a general overview of the steps involved in planning retirement income and encourages them to start laying down concrete financial plans now for their retirement years. It begins by outlining a framework for planning retirement finances. These specific steps are discussed: gathering information on current income and expenses, developing a budget, developing a statement of net worth, estimating retirement income and expenses, and planning a retirement budget. The following sections of the booklet familiarize the reader with the various sources of income in retirement. They cover anticipation of retirement income from social security, private pensions, veterans' benefits, and other sources; insurance; investment strategies and types of investments (savings accounts, Individual Retirement Accounts and Keoghs, bonds, stocks, mutual funds, collectibles, real estate, home equity conversions); medical insurance; and employment after retirement. A section on estate planning discusses joint ownership, trusts, power of attorney, wills, and letter of last instructions. Finally, a list is provided of the most frequently consulted types of advisers and their main areas of expertise. A bibliography of nine helpful books and pamphlets is appended. (YLB)

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COMMITTEE PRINT

A GUIDE TO PLANNING YOUR RETIREMENT FINANCES

A REPORT

BY THE

CHAIRMAN

OF THE

SUBCOMMITTEE ON RETIREMENT INCOME AND EMPLOYMENT

OF THE

SELECT COMMITTEE ON AGING
HOUSE OF REPRESENTATIVES

ONE HUNDRED FIRST CONGRESS

FIRST SESSION

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JANUARY 1989

Comm. Pub. No. 100-710

Printed for the use of the Select Committee on Aging

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U.S. GOVERNMENT PRINTING OFFICE

92-896 ⇆ WASHINGTON : 1989

For sale by the Superintendent of Documents, Congressional Sales Office
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FOREWORD

In 1987, I requested the General Accounting Office to examine the extent to which workers know about the provisions in their pension plans. This analysis revealed that millions of Americans do not know even the most basic contents of their pension plans, including the eligibility requirements for when they can retire. I am greatly concerned that without this knowledge, a substantial number of workers will make faulty life-planning decisions, and will reach their retirement years hampered by inadequate sources of income.

I firmly believe it is important for all Americans to initiate basic retirement planning activities throughout their working years, and that these plans should be updated periodically. While it is never too late to begin sound financial planning, many unnecessary and serious difficulties can be avoided by starting this planning early.

It is my hope that this booklet will provide you with a general overview of the steps involved in planning your retirement income, and that it will encourage you to begin today. While the thought of starting such a complex process may at first glance appear burdensome, I believe that by taking it one step at a time as outlined here, you will find that it is not too difficult to accomplish. And, once you have completed this process, you will be in much better control of your finances—both during your working years and in retirement.

This booklet has been substantially updated from a 1982 publication of the Subcommittee on Retirement Income and Employment and the American Association of Retired Persons (AARP). I wish to thank all those who have contributed to this new edition. In particular, Janice Jackson Fiegener, Professional Staff Member of the Subcommittee, who had lead responsibility for compiling the information, as well as Brian Lutz, Subcommittee Staff Director, and Amy Melnick, Research Assistant.

In addition, the Congressional Research Service provided invaluable assistance in updating and verifying many of the booklet's sections. Finally, I would like to give a special thanks to Mr. David Hurwitz, a retirement consultant in the Washington DC area, Howard Schnee, an attorney in Los Angeles whose practice includes estate planning and probate matters, and the staff of the American Bar Association's Commission on Legal Problems of the Elderly for donating their time to provide constructive suggestions for this project and the publication's contents.

EDWARD R. ROYBAL,
Chairman.

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INTRODUCTION

Many Americans delay making final plans for retirement. However, a lack of sufficient planning can place severe hardships on you and your family. Although dealing with money matters may seem dull, unpleasant, or even frightening, if you plan carefully and make the necessary decisions for your retirement, you will be in better control of your future.

Many people assume that Social Security and pensions will provide adequate income in retirement. But those sources alone may not keep pace with inflation. Ideally, retirement finances should be viewed as a three-tier system with each tier complementing the other: tier 1-Social Security; tier 2-private and government pensions; and tier 3-voluntary savings and investments.

This booklet explains the major areas that can help put you in control of current and future finances. While it cannot answer all of your questions or planning needs, its purpose is to inform and encourage you to start laying down concrete financial plans now for your retirement years.

A Framework for Planning Your Retirement Finances

There are some specific steps that you can take to prepare for your financial needs in retirement. You will need to:

1. gather information on your current income and expenses;
2. develop a budget for today;
3. develop a statement of net worth;
4. estimate your retirement income and expenses; and
5. plan your retirement budget.

Gathering Essential Documents

In order to review your current financial situation and start planning for your retirement, you'll need to have some personal facts and figures at hand. You should start by locating the documents and papers listed in the checklist on the next page.

The Importance of Budgeting

By drawing up your current budget, you'll find it easier to prepare a budget for retirement. And since most people have less income when they retire, keeping a budget now may help you save for the future.

A budget is a balance sheet of income and expenditures, usually on a monthly basis, that accurately records the pattern of your day-to-day spending habits and reflects your priorities. Further, a budget can (1) put you in better control of your resources; (2) ease the task of totaling year-end expenses needed to figure income taxes; (3) allow you to set aside a sum each month for savings; and

CHECKLIST OF ESSENTIAL DOCUMENTS

Check the items that apply to you, and then make sure you know where they are located.

_____ birth certificates for immediate family
_____ naturalization papers
_____ adoption papers
_____ marriage certificates
_____ divorce decrees
_____ social security cards
_____ social security earnings record
_____ pension benefit statements (private and government)
_____ military records (commissions, discharge, Veteran's)
_____ bank names, adresses, account numbers
_____ life insurance policies
_____ home and health/accident insurance policies
_____ itemized list of investments (certificates of deposit, stock certificates, bonds, U.S. savings bonds)
_____ federal, state and local income tax returns (3 years)
_____ other tax statements (such as property)
_____ real estate deeds, mortgages, titles, notes
_____ apartment and condominium leases
_____ automotive title, registration, bill of sale
_____ credit payments and status
_____ loans you owe and status
_____ loans owed you and status
_____ business and partnership agreements
_____ wills (yours and your spouses)
_____ trust agreements
_____ declared value of household goods and collectibles

(4) tell you whether you are living within your means. Remember that a budget usually reflects only routine expenses; the money needed to cover emergencies should be part of your savings.

Preparing Your Budget For Today

Don't be intimidated by the prospect of adding columns of figures in a budget. Your listing needn't be complicated or overly detailed.

Begin by calculating your net income, the amount you—or you and your family—receive monthly from paychecks after Social Security and after other deductions have been made. Include other monthly income such as interest, dividends, and gifts. Write down all income sources in one column and total them. (See worksheet on next page).

Then list several broad categories for monthly expenditures. In another column, jot down fixed and variable expenses in these categories. Your budget should include the following major categories:

Housing.—Rental fees, home or apartment ownership expenses like mortgage payments, home insurance, real estate taxes, utility costs, home upkeep and repair costs, and condominium fees.

Food.—Grocery expenses, meals eaten away from home, and the cost of entertaining others in your home.

Clothing and Personal Care.—Cost of new clothes, upkeep expenses such as laundry and dry cleaning, shoe repair, and alterations; expenses for personal care such as hair cuts and toiletries.

Transportation.—Charges for gasoline, upkeep and repair, car payments, insurance, bus and taxi fares, vacation driving, and parking fees.

Health Care.—Out-of-pocket payments for doctor, dentist, and hospital, medicine, both prescription and nonprescription, health insurance payments not deducted from your paycheck.

Life Insurance and IRA's.—Life insurance payments, and contributions to Individual Retirement Accounts (IRA's) and Keoghs.

Contributions.—Religious and charitable donations.

Other family expenses.—Entertainment, family recreation costs, household furnishings, appliances, and gifts.

Savings.—Money set aside for a major goal, to cover upcoming expenses, long- and short-range plans, and emergencies.

At the end of each month: (1) total all expenses under each heading; (2) add expense totals together; and (3) subtract expenses from total income. Remember to keep all receipts for budgeting and income tax purposes.

If you are preparing a family budget, sit down with family members and discuss personal needs and priorities.

How To Estimate Your Net Worth

Net worth defines—in writing—all your assets and debts. The net worth calculation allows you and your advisers to see at a glance your overall financial situation and take steps to safeguard your estate. Your net worth calculations must be complete and honest.

Set up two columns—one for assets and one for liabilities. Include in the assets column: (1) ready cash in checking and savings accounts; (2) current market value of stocks, bonds, and other investments; (3) conversion values of insurance policies; (4) annuity

Your Budget for Today

Monthly Income Received Now		How Much You Spend Each Month			
Wages & Salary	_____	Housing	_____		
Other Income	_____	Food	_____		
Bank Account Interest	_____	Clothing & Personal Care	_____	Total Income	_____
Stock & Bond Dividends	_____	Transportation	_____		
Annuities	_____	Health Care	_____	Total Expenses	_____
Other Investments	_____	Life Insurance	_____		
		Savings & Investments	_____	Differences, Plus or Minus	_____
		Contributions	_____		
		Other Expenses	_____		
Total:	_____	Total:	_____		

proceeds; (5) pension rights (if vested); (6) resale value of your home and other assets such as personal belongings and valuables; (7) resale value of your car. When the worth of personal property and valuables is difficult to determine, make the best estimate you can and aim low.

Include in the liabilities column: (1) all current outstanding bills; (2) the remaining balance of your mortgage; (3) charge accounts and installment debts; (4) any other outstanding loans (e.g., auto or home improvement).

Add up each column, subtract total liabilities from total assets, and you'll have your net worth. Update the figures every few years as conditions and values change. (See chart on next page).

How Much Will You Need In Retirement?

Based on the latest statistics available from the U.S. Department of Labor, a typical retired (65+) household spent $14,636 during 1986. Housing was the largest expenditure ($4,592 or 31 percent); followed by transportation ($2,528–17 percent); food ($2,419–17 percent); medical costs not covered by Medicare ($1,635–11 percent); clothing and personal care ($760–5 percent); personal insurance and pensions ($680–5 percent); and other expenses ($2,022–14 percent). Other expenses include entertainment, education, contributions, and miscellaneous. (See chart on page 7.)

The lower your income bracket, the higher proportion of money you must spend on necessities like shelter and food, and the less you'll have left for extras like travel.

Retirement income should represent between 65 percent and 75 percent of your preretirement income. For example, if your net spendable income per month was $1,500 before retirement, after retirement you'd need between $1,125 and $1,200 per month to maintain a comparable standard of living.

You should take into account possible changes following retirement. If you're a homeowner, will you sell your house and move to an apartment? Will you relocate to another part of the country? Try to answer such questions before drafting a realistic retirement budget.

Your spending patterns and expenses will change during retirement—children will likely be self-supporting; work-related costs, such as expenses for commuting and clothing, will decrease.

You will probably be entitled to Medicare to help defray medical expenses when you reach 65. You'll also be eligible for a variety of "senior citizen" discounts on certain purchases, transportation, and entertainment.

Estimating Your Retirement Budget

Start by listing the income you expect to receive after you retire. If you have developed your net worth statement, you have already gathered much of the information necessary to estimate your retirement budget. The following check-list will help you identify potential sources of income:

Net Worth

Assets -- What We Own	George and May B	Your Figures
Cash:		
Checking Account	$ 800	_____
Savings Account	4,500	_____
Investments:		
U.S. Savings Bonds (Current cash-in value)	5,000	_____
Stocks, mutual funds	4,500	_____
Life Insurance:		
Cash value, accumulated dividends	10,000	_____
Company Pension Rights:		
Accrued pension benefit	20,000	_____
Property:		
House (resale value)	50,000	_____
Furniture and appliances	8,000	_____
Collections and jewelry	2,000	_____
Automobile	3,000	_____
Other:		
Loan to brother	1,000	
Gross Assets	**$108,800**	_____
Liabilities -- What We Owe		
Current Unpaid Bills	600	_____
Home Mortgage (remaining balance)	9,700	_____
Auto Loan	1,200	_____
Property Taxes	1,100	_____
Home Improvement Loan	3,700	
Total Liabilities	**$16,300**	_____

Net Worth: Assets of **$108,800** minus liabilities of **$16,300** equals **$92,500**.

Average Annual Expenditures

Older (65+) Household

Category	Amount	Percent of Total
Housing	$4,592	31%
Food	2,419	17%
Clothing & Personal Care	760	5%
Transportation	2,528	17%
Health Care***	1,635	11%
Life Insurance/ Pensions	680	5%
Contributions	889	6%
Entertainment, Reading & Education	596	4%
Miscellaneous	537	4%
Total:	**$14,636**	**100%**

*** A recent study by the House of Representatives Select Committee on Aging found that elderly out-of-pocket health care costs rose to 18.1 percent in 1988. The study was based on data supplied by the Health Care Financing Administration.

Source: Bureau of Labor Statistics, 1986.

—Social Security
—Other Income from Government, Civil Service, Veterans, and Railroad Retirement Pensions
—Private Company Pension
—Employment Salary/Wages
—Cash Accounts
    Checking
    Passbook Savings
    Other Savings (Certificates of Deposits, Money Market Funds)
—Life Insurance Annuities
—IRA and Keogh Plans
—Stock and Bond Dividends
—Corporate and Government Securities
—Other Investments (Mutual Funds, Real Estate, Collectibles)
—Sale of Home or Business

Using the same categories as in the previous section on "Preparing Your Budget For Today" on page 3, estimate roughly how much you will spend each month.

How Will Inflation Affect Your Budget?

Unfortunately, there is no way to predict the rate of inflation or its effects in coming years. But even an inflation rate of 7 percent a year would reduce your purchasing power by nearly half in 10 years' time. Social Security benefits will continue to rise with the cost of living, but pension benefits probably won't. The difference will have to be made up either through savings and investments or through employment after retirement.

The following charts will help you to determine your budget for tomorrow and help you understand how to plan for the impact of inflation.

What Happens If Your Retirement Budget Doesn't Balance?

The last step in calculating your retirement budget is to figure out the balance. Will you have any money left at the end of the month? If you are in the "red," you may need to go back and review your expenses to see if there are any places you can cut. Can you modify your spending habits so that what you have will be more efficiently managed (such as moving to smaller living quarters)? Or, it could indicate that you need to revamp your investment program *now* to maintain your desired standard of living during retirement. Determine if there is anything in your net worth statement that can be used to make up the deficit.

Remember to keep your budget open to revision—plans or circumstances may change, the cost of living could jump, or you may take on unexpected debts.

Your Retirement Budget

Estimated Monthly Retirement Income		What You Think You'll Need After Retirement			
Social Security	_____	Housing	_____		
Other Government Pension	_____	Food	_____		
Company Pension	_____	Clothing & Personal Care	_____	Total Income	_____
Employment Wages	_____	Transportation	_____		
Cash Accounts:		Health Care	_____	Total Expenses	_____
Checking	_____				
Savings	_____	Life Insurance	_____		
Life Insurance Annuities	_____	Savings & Investments	_____	Difference, Plus or Minus	_____
IRA & Keogh Payments	_____	Contributions	_____		
Stock & Bond Dividends	_____	Other Expenses	_____		
Other Investments	_____				
Sale of Home or Business	_____	Total:	_____		
Total:	_____				

Projecting Retirement Income for Inflation

Yearly Retirement Expenses

(Monthly Retirement Expenses Multiplied by 12)

Housing	_____
Food	_____
Clothing & Personal Care	_____
Transportation	_____
Health Care	_____
Life Insurance	_____
Savings & Investments	_____
Contributions	_____
Other Expenses	_____
Total:	═══

Inflation Impact Table

(Compounded at 4% per year)

End of Year	Inflation Factor	End of Year	Inflation Factor
1	1.0400	16	1.8730
2	1.0816	17	1.9480
3	1.1249	18	2.0260
4	1.1699	19	2.1070
5	1.2167	20	2.1913
6	1.2654	21	2.2790
7	1.3160	22	2.3702
8	1.3686	23	2.4650
9	1.4234	24	2.5636
10	1.4803	25	2.6661
11	1.5395	26	2.7727
12	1.6011	27	2.8836
13	1.6651	28	2.9989
14	1.7317	29	3.1189
15	1.8010	30	3.2437

Projection for Inflation

Multiply the total from the Yearly Retirement Expenses column by the appropriate inflation factor from the Inflation Impact Table. For example, if you are five years from retirement, you'll use Inflation Factor 1.2167 to learn how much you'll actually need that first retirement year. After that, project for five years into retirement and make any other projections you think are necessary.

Your first retirement year: _____ Five Years after retirement: _____ Further projections: _____

Be sure to apply the Inflation Factor only to those items that are subject to Inflation.

What If You Have Trouble Sticking To Your Budget?

It's all right to splurge once in a while. Remember, though, that if your spending exceeds your income one month, you'll have to make up the deficit by reducing spending another month. Anticipate larger expenses—like insurance payments—in advance, and set aside money each month to cover them. Keep in mind that you may have seasonal expenses like fuel costs and Federal and State taxes.

If you wind up in the hole every month, there may be cause for alarm. To set yourself straight you can:

Declare a moratorium on major purchases for several months until outstanding debts are paid off;

Curb all impulse buying, no matter how small the purchase;

Avoid buying on credit since you may incur finance charges and exceed your budget;

Consider getting outside help. Many county extension services and other nonprofit credit counseling agencies throughout the country can help you make budget adjustments to help you get out of debt.

What About Using Credit?

Credit for major purchases, although sometimes necessary, should be used with discretion. Interest and finance charges are levied at hefty rates on loans and outstanding bills, so it's unwise to overextend yourself. Financial counselors advise not more than 10 to 15 percent of monthly take-home pay should go to paying off loans and installment debts (home mortgage excluded).

You should be aware that, because of Federal legislation, no one can be discriminated against when applying for credit because of age, sex, or marital status. Even so, it makes sense to establish a good credit rating before you retire—while income is higher.

The following sections of this booklet will familiarize you with the various sources of income in retirement.

How to Anticipate your Retirement Income

Social Security

Social Security is a monthly benefit paid by the Federal Government to retired, blind, or disabled workers who contributed into the system during their working years. Benefits are paid to these individuals and their families. Recipients include workers and their nonworking spouses, widows, widowers, divorced persons, dependent children and dependent parents. Social Security benefits are adjusted each year with the cost of living.

Is Social Security Alone All You Need To Finance Your Retirement?

Emphatically NO for the majority of retirees. Social Security was never intended to provide 100 percent of retirement income.

Social Security was and is designed to provide a base or "floor" for retirement income, the remainder coming from private pensions, savings and investments. According to the current formula, single workers at the minimum wage level receive monthly benefits of slightly more than one-half final preretirement earnings,

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while those at the higher wage level receive less than one-third. In 1988, a minimum wage earner received 71.2 percent of preretirement earnings, an average wage earner 41.8 percent, and a maximum wage earner 25.1 percent.

When And Where To Apply For Social Security

Most people can qualify for reduced benefits at age 62; widows or widowers can begin collecting benefits earlier. Workers who become disabled can receive benefits at any age.

Three months *before* you retire, apply for benefits by calling the Social Security office's toll-free number (800-2345-SSA) or visiting your nearest Social Security office. (Check your phone book under U.S. Government, Social Security Administration). When you call the service representative, you may be referred to your local office to complete the application process. *You must take the initiative yourself to apply for Social Security; payments will not come to you as a matter of course. By applying late, you may risk a loss of benefits.* If, because of ill health, you are unable to apply in person, arrange for a Social Security representative to visit your home to help you complete the necessary forms.

What Information Will You Need When You Apply?

The Social Security office will tell you what proof is needed for your particular case. If you are missing certain documents, ask if you can bring substitutes.

You will generally be asked to provide the following:

1) Proof of age;
2) Social Security card or record of your number;
3) Your W-2 withholding form from the past 2 years or a copy of your last Federal tax return and proof of payment. (This is necessary to ensure that your record of earnings agree with the Social Security office. In many cases your latest earnings will not have been posted with the Social Security Administration. Unless you provide these forms, it could be several months before all your earnings are included in calculating your Social Security benefit);
4) Your marriage certificate, if you are applying for a spouse's benefits; and
5) Birth certificates of your children if you are applying for them.

What If You Retire At 62 Instead of 65?

Your Social Security benefits will be reduced if you retire before age 65. Currently, there's a *permanent* reduction of five-ninths of 1 percent for each month that payments are received before you are 65. If you retire at 62, your monthly payments will thus be reduced permanently by 20 percent of what they would have been if you had waited until 65 to retire. Consider carefully whether you want to reduce benefits. You must decide whether you want smaller checks that begin sooner or larger checks later. If you work after 65, benefits will be increased by one-fourth of 1 percent each month retirement is delayed past age 65, but only up to age 70.

Before You Retire, How Can You Get An Estimate Of What Your Monthly Benefits Will Be?

Since August, 1988, the Social Security Administration will, upon request, provide a history of any worker's earnings and an estimate of his or her future monthly benefits. To obtain the earnings and benefits statement, you can call 1-800-937-2000 (toll-free), write to: Consumer Information Center, Dept.55, Social Security Administration, Pueblo, CO, 81009, or go to any local Social Security office and ask for form SSA-7004. The form will ask you to estimate your current and future earnings, and when you plan to retire. In about a month, you will receive a "Personal Earnings and Benefit Statement," which will give you your Social Security history, showing the amount of covered earnings you earned each year and what you have paid in Social Security taxes. In addition, the report will provide an estimate, in today's dollars, of what you will get each month from Social Security when you retire—at age 62, 65 or 70—based on your earnings to date and your projected future earnings.

It is important to check your earnings every 3 years to be sure they have been properly credited to you. Form 7004 can also be used to request information about your earnings in recent years. Request also a statement of the number of quarters of coverage you have earned. To qualify for retirement benefits, you must have the required number of quarters of coverage. The number of quarters of coverage you need depends on your year of birth. Persons born after 1928 need 40 quarters to qualify for benefits.

Through 1977, you got one quarter of coverage if you were paid wages or salary of at least $50 in covered employment in a calendar quarter. In 1978, this was changed to one quarter of coverage for each $250 of annual earnings and made subject to escalation each year. In 1989, $500 is required for a quarter of coverage. A maximum of four quarters of coverage per year may be earned.

What Are The Minimum And Maximum Benefits You Could Receive?

Benefits are based on an average of earnings over the years. *Don't assume you qualify for maximum benefits even if earnings were high.* A worker who turns age 65 in 1989, who worked at the Federal minimum wage for the past 29 years would receive a benefit of about $439 a month. If the worker's spouse is also 65, the couple will receive an additional $219 (50 percent of the worker's monthly amount) for a total of $658 a month. Currently, a worker who retires at age 65 in 1989 who has always earned the maximum amount covered by Social Security will receive a benefit of $899 and a couple will receive $1,348. Even though a wife has never earned an income, she is entitled to receive benefits if her husband is a recipient.

The table on the next page shows *approximate* monthly Social Security benefits for workers at age 65.

What Portion Of Social Security Will Be Taxed?

For most people, the answer is none. Most people will not have to pay any taxes on their Social Security benefit. However, beneficiaries whose adjusted gross income, plus one-half of their Social

ESTIMATING YOUR SOCIAL SECURITY RETIREMENT BENEFITS

All monthly benefits are based on the **Primary Insurance Amount** (PIA). You would receive this amount if you retired at your Normal Retirement Age, currently age 65.

These figures are based on the assumption that you have worked steadily and received pay raises equal to the U.S. average throughout your working career. In addition, your earnings, and the general level of wages and salaries in the country, are assumed to stay the same until you retire. This way, the table shows the value of your retirement benefit in today's dollars.

IMPORTANT NOTE: YOUR BENEFITS COULD BE MORE OR LESS THAN SHOWN ON THIS TABLE.

Monthly Benefits At Age 65

Your Age in 1989	WHO RECEIVES BENEFITS	YOUR PRESENT ANNUAL EARNINGS $12,000	$19,000	$27,000	$36,000	$48,000 and up
65	You	$473	$638	$810	$861	$899
	Spouse or child	236	319	405	430	449
64	You	487	658	835	889	931
	Spouse or child	243	329	417	444	465
63	You	481	650	826	881	925
	Spouse or child	240	325	413	440	462
62	You	491	662	842	900	948
	Spouse or child	245	331	421	450	474
61	You	491	663	844	903	953
	Spouse or child	245	331	422	451	476
55	You	496	671	857	930	1,005
	Spouse or child	248	335	428	465	502
50	You	489*	662*	844*	932*	1,026*
	Spouse or child	250	338	432	476	524
45	You	470*	638*	811*	908*	1,018*
	Spouse or child	252	342	434	486	545
40	You	474*	644*	815*	917*	1,047*
	Spouse or child	254	345	436	491	561
35	You	478*	650*	819*	922*	1,061*
	Spouse or child	256	348	438	494	568
30	You	453*	617*	773*	872*	1,004*
	Spouse or child	258	351	440	497	572

*These amounts are reduced for retirement at age 65 because the Normal Retirement Age (NRA) is higher for these persons; the reduction factors are different for the worker and the spouse.

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Security benefits, happens to exceed certain thresholds can have up to one-half of their benefits subject to the Federal income tax. The thresholds are $25,000 for a single individual and $32,000 for couples. A worksheet contained in the booklet accompanying your 1040 income tax form explains how to compute the amount of your benefits that may be taxable. Also, 13 States currently include Social Security benefits in income subject to their State income tax.

What If You Work After You Retire?

You may decide that part- or full-time employment is necessary for either personal or financial reasons. But remember that your Social Security checks may be reduced if you earn above a certain amount a year, depending on your age and the amount you earn. This Social Security "earnings test" applies to everyone who receives Social Security retirement or survivors benefits, except those who are age 70 or older.

You can receive all benefits for the year if your employment earnings do not exceed the annual exempt amount. For 1989, the annual exempt amount if you are under age 65 is $6,480. For people aged 65 through 69, the 1989 exempt amount is $8,800. The earnings test changes each year based on the annual inflation rate.

If your earnings go over the annual exempt amount, $1 in Social Security benefits is withheld for every $2 you earn above the limit. Starting in 1990, $1 in benefits will be withheld for every $3 in earnings above the limit for people age 65 through 69. Only your earnings from employment or self-employment count. Income from savings, investments, pensions, or insurance does not count in calculating the earnings test. For more information, ask your Social Security office to send you a copy of the pamphlet, "If You Work After You Retire."

What Benefits Are Provided For Homemakers, Widows, And Divorced Women?

A career homemaker qualifies for Social Security benefits as the spouse of a worker who retires, becomes disabled, or dies.

Widows are entitled to benefits if they're 60 or older, based on the amount of their deceased husband's benefits at death. A woman 65+ can receive 100 percent of her husband's benefit upon his death. Disabled widows can receive checks as early as age 50. A widow who remarries at age 60 or older can now receive benefits based either on her current or deceased husband's record. A divorced woman can receive benefits when her ex-husband becomes eligible for benefits if she is 62 or older and had been married to her former spouse for at least 10 years.

For a more complete explanation of all women's benefits, request "A Woman's Guide to Social Security" from your local Social Security office.

Private Pensions

In recent years, there have been many changes in how companies provide pensions. If you are covered under a pension plan, it is extremely important that you find out the details of your plan. Although half of all workers in the private labor force are now covered by pension plans, some workers may not ever receive pension

benefits because they have not worked with the company long enough to qualify for benefits. Unfortunately, most pension plans do not have an automatic cost-of-living provision and inflation quickly deflates pension income. However, many companies provide voluntary periodic increases to pension benefits. Even if you are one of the fortunate ones receiving post-retirement benefit increases, your pension benefits during retirement may not keep pace with inflation.

Eligibility requirements for pensions vary widely among employers. Before you can begin drawing complete or partial retirement benefits, you need to have worked for an employer a specified number of years. This was usually 10 years. However, the pension law has been changed to require shorter periods of service beginning in 1989. More information about "vesting" requirements is given below.

Full (normal) pension benefits begin at a specified age, usually age 62 or 65. But most plans allow you to retire early with reduced benefits.

Most plans also let you collect a retirement pension if you become disabled. Usually, you must be totally disabled and must have worked for the employer a specified number of years before collecting.

How To Find Out About Your Pension Plan

By law, each employer must furnish information to employees that explains the pension plan in layman's language. Even so, it is wise to meet with your employer's pension plan administrator, benefits counselor, or personnel representative to get a thorough explanation of the plan's details. It is best to do this long before you are ready to retire so that you can plan accordingly.

The law requires that each employee may request to receive an annual statement of credits accumulated so that he or she can determine approximate retirement benefits.

Ask about your plan's funding and benefits formulation procedures. Most pension plans are funded by employer contributions; others by both employer and employee.

It is your responsibility to learn everything you can about your pension benefits. These are some of the major questions you should ask:

—What are the vesting requirements? In other words, how long do I have to be employed by the company before I am covered by the plan?
—At what age will I become eligible for benefits?
—Do I have an early retirement option?
—Are payments made monthly or in a lump sum? Do I have a choice? Are benefits guaranteed for life?
—Does the pension plan provide life or health insurance? Does the company insurance plan continue after I retire?
—Will my dependents be protected after my death? What percentage of my pension would my spouse or other dependents get?
—How much can I expect to receive? How will this affect my Social Security benefits?

—How and when should I apply for benefits? Whom should I contact?

What Is Vesting?

Vesting rules tell how long you have to work for an employer before you can collect a pension at retirement. Vesting procedures vary among employers, but you usually have to work for an employer for 10 years. If you hopped from job to job, it is possible you could reach retirement with no vested pension benefits. If you quit work before you were vested, you'd get back only the contributions you have paid into the system—not those your employer paid. After you became partially or fully vested, you would be entitled to collect benefits at retirement.

Beginning in 1989, employers must adopt one of two vesting standards. The first standard is met if a participant's right to his employer-provided benefit is nonforfeitable upon the completion of 5 years of service—a "5 year cliff" schedule. Alternatively, a participant's right to an employer-provided benefit has to become nonforfeitable under a "graded-vesting" schedule. It begins with 20 percent vesting after 3 years, and increases by 20 percent increments each year until 100 percent vesting is reached after 7 years of participation. The IRS may sometimes require faster vesting for rank and file workers than either of these two schedules if the plan primarily benefits higher paid employees or the owners of the business. You are always 100 percent vested in your own contributions.

While many more workers will now earn vested benefits, the pension benefits based on such short service, particularity early in one's career, will not likely be worth much. This is because they are usually based on salary at the time of job separation.

What Is ERISA?

The Employee Retirement Income Security Act of 1974 (ERISA) sets certain minimum funding, participation, and vesting standards for many pension plans. It also insures against the discontinuation of plans. However, ERISA has only limited authority. For example, ERISA can't force your employer to offer a plan in the first place. For more information, send for "Often Asked Questions About Employee Retirement Income Security Act (ERISA)," and "Know Your Pension Plan." Both are available *free* through your local office of the U.S. Department of Labor.

What Provisions Are Made For Survivors Under Private Pensions?

Significant changes have been made in the pension law to increase pension protection for the surviving spouses of vested present and former employees. Defined benefit and money purchase plans generally are required to provide preretirement and post-retirement survivor annuities automatically to married employees, unless a specified election to waive survivor coverage is made by both the employee and the spouse.

Choosing a survivor benefit normally reduces the amount paid to the retiree since the pension is calculated on the basis of the joint life expectancy of the participant and spouse. If a joint and a survivor option is chosen, ERISA requires that the amount paid to the

spouse of the deceased person be at least one-half the amount paid to the retiree.

Should You Receive Your Pension In A Lump Sum Or Monthly Payment?

Many workers are given the option of collecting their pension in monthly payments (an annuity) or collecting a fixed amount at retirement in a one-time payment (a lump-sum). Pension annuities are usually guaranteed for life. Depending on how long you live, you could receive more through lump-sum payments than through an annuity.

If you have a choice, the major considerations are:

—How essential a part of your post-retirement income is your pension? Is the security of a monthly check critical to you?

—Are you comfortable managing and investing the large sums of money that a lump-sum payment would give you?

—Given your age, health, and family history, how long can you reasonably expect to live? (Would it be long enough for a monthly annuity to amount to more than the lump sum)?

Will You Have To Pay Federal Income Tax On Pension Payments?

Pension income derived from your employer's contributions is fully taxable. If you contributed to the plan on your own, and the contribution was made after taxes, a portion of each payment representing a return on your own contribution is not taxed. However, if contributions were deducted from wages before taxes, you simply have deferred paying taxes until you retire and start receiving your pension. The tax law was substantially changed with the Tax Reform Act of 1986. For more tax information, call your local IRS office and ask for Publication 575, "Pension and Annuity Income."

Benefits For Federal Employees

Federal civilian employees first hired into Federal service before 1984 are covered by the Civil Service Retirement System (CSRS), a pension plan that does not include Social Security coverage. Under this plan, a worker age 55 or over with 30 years of service is eligible for a pension of about 56 percent of average pay in the highest-paid 3 years of service; a worker age 60 or over with 20 years of Federal service is eligible for about 36 percent of pay. The CSRS provides benefits to workers who become disabled and to the surviving spouse and certain dependent children of deceased workers and retirees. Benefits are indexed to the Consumer Price Index and are taxable.

As of 1983, all Federal workers began paying into the Medicare component of the Social Security system, and are thereby eligible for Medicare. All Federal workers first hired into Federal service after 1983 are automatically covered by the Social Security retirement program and by a supplemental pension plan, the Federal Employees Retirement System (FERS). Workers covered by the CSRS could elect to switch to this new system in lieu of the CSRS. Under FERS, a worker age 62 or over with 30 years of service is eligible for a pension of 33 percent of average pay in the highest 3 years, plus Social Security. FERS participants may retire before

age 62, but receive somewhat reduced pension benefits, and benefits are indexed only for retirees age 62 or over. FERS provides disability and survivor benefits that coordinate with such benefits payable from Social Security. Like CSRS, FERS pension benefits are taxable.

Both CSRS and FERS participants may elect to contribute to a thrift savings plan up to specified limits. The Government matches some of the contributions made by FERS participants. Employee contributions are tax-deferred. At retirement, these funds may be withdrawn and are then taxed.

All Federal employees may participate in group health insurance and life insurance plans which may be carried over into retirement.

Railroad Retirement Benefits

The Railroad Retirement system is a federally legislated program which provides retirement, disability and survivor annuities to workers whose employment was connected with the railroad industry for at least 10 years.

You are eligible for a regular employee annuity under the Railroad Retirement Act if you have 120 months (10 years) of creditable railroad service. Service months need not be consecutive, and in some cases military service may be counted. Benefits are based on years of service and earnings. If you have 10–29 years of creditable service, you can start receiving annuities at age 62; with 30 or more years of service you are eligible to receive benefits at age 60. In most cases, benefits will be reduced for early retirement.

Spouse annuities depend on the employee's age, date of retirement, and the employee's years of railroad service; a minimum of 10 years is required. You are eligible for disability payments at any age if you become permanently disabled for all "regular work" and have at least 10 years of service.

Employee and spouse annuities are computed with a two-tier formula. The tier one amount approximates a Social Security benefit. Tier two is an additional amount based only on railroad service, and is comparable to the pensions paid to workers in other industries.

The requirements for eligibility and benefit amounts can get complicated, so it is best to contact your local Railroad Retirement Board office to discuss your particular situation. They will give you annuity estimates and verify eligibility dates. You should contact your local office several months before you actually retire. Look in your telephone book blue pages under U.S. Government, Railroad Retirement District Field Office.

Veterans' Benefits

You could be eligible for a retirement pension from the Veterans' Administration (VA) if you become disabled after leaving the service. The amount of the pension depends on your age, the severity of your disability, income and number of dependents. As a rule, to receive benefits, you must have served for at least 90 days in the armed services, including at least 1 day of wartime service.

You must apply for veterans' benefits. The rules for receiving benefits depend on many variables. Discuss your case with a repre-

sentative at your local VA office. For more information, you can order "Federal Benefits for Veterans and Dependents," Item No. IS-1. Send $2.25 to U.S. Government Printing Office, Washington D.C. 20402.

Supplemental Security Income (SSI)

Supplemental Security Income (SSI) should not be confused with Social Security. SSI is a Federal program that guarantees a minimum monthly income to financially needy persons who are at least 65 or are blind or disabled and meet certain income and asset requirements. Eligible individuals with monthly incomes under $400 per month (and sometimes much higher), can usually qualify for an SSI benefit. Some income is not counted in determining eligibility, such as Social Security, portions of earned income, and in-kind assistance provided by Federal, State or local governments. However, the income of an ineligible spouse who lives with the SSI applicant is considered.

In 1989, eligibility is restricted to qualified individuals who have assets of less than $2,000; couples must have less than $3,000 in assets. Assets are defined as things one owns, such as real estate, personal belongings, a car, savings and checking accounts, cash, stocks and bonds. Some assets are not counted: the home one lives in; household goods and personal effects with a limit of $2,000 in equity value; $4,500 of the current market value of a car; burial plots and a maximum of $1,500 in burial funds.

The amount of the monthly Federal SSI payment is determined by the recipient's countable income, living arrangement, and marital status. In 1989, individuals with no other income can receive a benefit of $368 per month; for couples the benefit amount is $553 per month. Many eligible persons go without receiving SSI simply because they are not aware of the program's requirements. Check with your local Social Security office to see if you or a friend or a relative might be eligible.

Insurance

Life Insurance Policies

The majority of Americans own some form of life insurance. There are two types of policies, term and whole life. A term policy is routinely bought by a younger person to provide for dependents in the event of his or her death.

Term, which initially has lower premiums, ordinarily builds up no cash value. The holder must die before any money can be paid out. Your employer may offer a group term policy. However, you may not be eligible to continue the policy after you retire.

Whole life policies (also called ordinary or straight life) are often described as savings vehicles, but protection is their main purpose. Whole life policies have higher premiums than term, and the premiums remain fixed. Your payments go into an account where they grow, drawing interest and building cash value. The cash value of the policy can be collected at a later date and be used to provide supplemental retirement income.

You may have purchased whole life insurance 20 or 30 years ago and have forgotten. Or, perhaps you never knew the details of your

policy (ies). As you approach your retirement, find out the type of insurance you have, its current and paid-up value, and its loan and conversion options. Check to see that your beneficiary designations are up-to-date and that you have named a second beneficiary.

In recent years, some newer types of life insurance policies have been developed. These include *variable* policies, in which the build-up of cash value is tied directly to certain investments held by the insurance company. *Universal* policies allow the policy holder to change the amount of coverage by paying a smaller or larger than normal premium.

Know where policies are kept and let family members know their location. It's best not to store policies in your safe deposit box since access could be difficult at your death. If you don't understand the fine print in your policies, consult your insurance agent or write to your insurance company for a complete explanation of terms.

What About Retirement Life Insurance Needs?

It's difficult to make hard and fast statements about individual life insurance needs. Ask yourself, "Do I still have dependent children to support and educate?" "Will my spouse have enough income to live on without life insurance proceeds if I die?" If you have a whole life policy, no dependents, and enough assets for death expenses, it may seem sensible to cash in your policy and invest the money elsewhere.

Usually, retirees don't need as much life insurance coverage as younger persons. Consider keeping some, but not all, of your insurance—perhaps to provide immediate cash for your spouse or to meet death and burial expenses. But, be careful; being over-insured can be as unwise as being under-insured.

Annuities

Another source of retirement income is an annuity. An annuity is a contract between a life insurance company and an individual whereby the buyer of the annuity pays a given sum (based on insurance actuarial tables) and receives, in return, a guaranteed fixed income for a specified period of time or for life. As a rule, the older you are when you purchase an annuity, the higher your payments to purchase an annuity will be.

A regular 'deferred annuity' requires the policyholder to make premium payments each year into a fund that earns interest and later provides monthly retirement income. A 'single-premium deferred annuity' requires a lump sum payment that will provide retirement income at a later date.

An 'intermediate pay annuity,' for those of retirement age, requires the buyer to give an insurance company a lump sum payment. Fixed monthly benefits begin right away and continue, in most cases, for life.

When you buy an annuity, you choose not only whether you'll pay for it at once or over a specified time period, but also how you want the amount distributed. For instance, you could have annuity payments stop at your death, or you could elect that monthly payments be continued for your survivor(s).

What Are The Pros and Cons Of Annuities?

Annuities offer the following advantages: The buyer is (1) freed from the responsibility of managing money; (2) not tempted to use the sum for other purposes; (3) guaranteed a steady income for life; and (4) able to defer Federal income tax because the annuity income isn't taxed during the working years. Annuity income is partially taxable after retirement.

However, it's best not to sink all your assets into annuities since monthly fixed payments will not keep pace with inflation. Once annuity payments begin, you're locked into the arrangement, and your assets are not liquid.

A relatively new development is the 'variable annuity', in which premiums are placed in an account and fluctuate as economic conditions change. The return is not fixed as it is with other annuities. So don't commit yourself to a variable annuity without understanding the risks.

Shop around and compare the yields and payment options offered by different insurance companies and other financial institutions. Always ask if you will be charged administration fees and sales commissions.

Investment Strategies

Investing can play a major role in helping you reach your retirement goals. While sorting through the broad range of possible investment strategies can be confusing, there are six important factors which you should consider when making retirement investments.

1. *Safety vs. Risk.*—Investments range from very safe to very risky. If you choose safe investments, you can expect a lower rate of return on monies invested. If you want a higher rate of return, you must accept greater risk. Generally, the closer you are to retirement, the more you should consider shifting a larger proportion of your savings to safer investments. When you are younger and can invest for the longer term, you may be more willing to accept the risks associated with a short-term downturn in an investment because you can "wait it out." In either case, you should only accept risks that you genuinely feel comfortable in assuming.

2. *Diversity.*—A good rule of thumb is to "not put all your eggs into one basket." You have probably heard of situations where persons lost all their money because their sole investment failed. It is best to have the protection of a variety of investments, even though one may appear to be "fail-proof."

3. *Income.*—How much income will you need from your investments to meet your living expenses? Do you need your investments to provide substantial, regular income, or can you set aside money to re-invest for the longer term?

4. *Liquidity.*—This factor refers to the portion of your assets that is readily accessible to pay living expenses and unexpected costs. Experts typically recommend that at least 3-6 months of living expenses be kept liquid, as well as an amount sufficient to cover unexpected expenses such as major home repairs, medical bills etc. Some forms of investments are not easily transferred to cash (such as real estate), or impose penalties if you cash them in prematurely

(such as certificates of deposit), and thus aren't as liquid or readily available as others.

5. *Growth.*—Refers to how fast an investment increases in value. Typically the more growth there is, the higher the risk you will have to assume.

6. *Taxability.*—The rate at which you will be taxed for a certain investment. The tax factor can often determine which investments will be more favorable in the long run. You should keep in mind that some investments may be free from Federal taxes, but not from State and local taxes, or vice versa.

Types of Investments

Savings (Cash) Accounts

Savings should be a major part of your present and future financial planning program. Set aside savings to provide a "cushion" for emergencies and other unforeseen expenses. The best and easiest way to build savings is to lay away a specified sum every month from the top of your income-at least from 3 percent to 8 percent of net income is a good guideline.

Passbook Savings Accounts.—Savings which are readily accessible and are put into a safe place (federally insured banks, savings and loan institutions, or credit unions), involve little or no risk and give you a return on your money. Their main drawback is that they earn interest at a rate which has barely kept pace with the inflation of recent years.

Nearly every financial institution, through the Federal Deposit Insurance Corporation (FDIC) or the Federal Savings and Loan Insurance Corporation (FSLIC) insures your savings up to $100,000. To get the highest yield, select an account that compounds interest from day of deposit to day of withdrawal. Of course, you must pay taxes on the interest earned. Recognize that while a savings account offers liquidity and safety, high inflation can reduce your savings considerably.

Should You Draw Down Your Savings?

The answer depends on your financial circumstances, your age, and on how much you want to leave to your heirs. You may have a large enough cash reserve to allow you to live comfortably on the interest alone. Or you might find it necessary to make regular withdrawals from your savings to help finance your retirement. Dipping into capital isn't wrong, but you must proceed with caution.

How long would your savings fund last if you invaded it for monthly income? Let's say you have a savings fund of $10,000 earning 5.5 percent interest, compounded quarterly. You could take out $68 every month for 20 years and, at the end, your nest egg would be reduced to zero. Or if you started out with $40,000, you could collect $224 every month for 30 years before exhausting your savings. (See chart on next page.)

What Are Some Other Risk-Free Savings Alternatives?

Certificates of Deposit (CD's).—Available from financial institutions, CD's are sold in varying denominations and return a higher

Dipping Into Your Nest Egg

Starting with a lump sum of . . .	. . . you can withdraw this much each month for the stated number of years, reducing the nest egg to zero					. . . OR, you can withdraw this much each month and always have the original nest egg intact.
	10 yrs.	15 yrs.	20 yrs.	25 yrs.	30 yrs.	
$ 10,000	$ 107	$ 81	$ 68	$ 61	$ 56	$ 46
15,000	161	121	102	91	84	69
20,000	215	162	136	121	112	92
25,000	269	202	170	152	140	115
30,000	322	243	204	182	168	138
40,000	430	323	272	243	224	184
50,000	537	404	340	304	281	230
60,000	645	485	408	364	337	276
80,000	859	647	544	486	449	368
100,000	1,074	808	680	607	561	460

(Based on an interest rate of 5.5% per year, compounded quarterly).

rate of interest than savings accounts, but you will be penalized if you withdraw the funds before a fixed term. The CD philosophy: The larger your deposit and the longer the term, the higher the interest rate paid. You could, for example, invest $1,000 at 8 percent for 8 years and nearly double your initial investment. Compare the maturities and interest rates that banks and S&L's offer for various certificates in case you need to cash in one or more at different times. Interest earned on certificates is subject to Federal, State and local taxes.

Money Market Funds.—Established in the early 1970's, money market funds offer small investors the opportunity to pool their assets in high-quality, high-interest, short-term instruments such as U.S. Government Securities and large CD's. You can invest as little as $1,000 or $500, and can withdraw your money at any time without suffering a penalty. Generally you pay no sales charge. Interest rates change daily in response to economic conditions, thus allowing you to keep pace with inflation.

Many money market funds allow you to write checks against your account so your money earns interest until the moment you withdraw it. Usually these funds pay interest rates well above the rates for passbook accounts. You can purchase shares in these funds through banks or other financial institutions.

There are a few drawbacks to consider before investing in a money market fund. Your earnings are generally subject to Federal, State, and local income taxes, so your yield will be reduced accordingly. Interest rates may not remain high, so consider these investments temporary ones that demand attention. And even though the risk is relatively low, money market funds are not insured by the Federal Government.

IRA's and Keogh's

You may want to set up an Individual Retirement Account, or an Individual Retirement Annuity (referred to collectively as an "IRA"), to save additional amounts for your retirement. If you are self-employed, on a part- or full-time basis, you may set up a Keogh account. These plans allow you to put money away for retirement on your own and defer paying tax on that money and the accrued interest until you retire. Both are excellent ways to provide future security.

Yearly contributions to IRA's are limited to 100 percent of your taxable compensation, or $2,000, whichever is less (or a total $2,500 for a "spousal IRA" if one spouse does not work). If both spouses are wage earners each may open an IRA and each may contribute up to $2,000, or 100 percent of their annual salaries and wages, whichever is less, to their respective accounts.

The Tax Reform Act of 1986 nullified tax deferrals for IRA contributions of workers covered by employer-sponsored retirement plans (or for whom those spouses are covered), except for those tax filing units with adjusted gross income (AGI) below certain amounts. A full deferral of taxation is available if AGI is below $25,000 ($40,000 for joint filers). Contributions are partially tax-deferred up to an AGI of $35,000 ($50,000 for joint filers). Individuals who are not allowed the full deferral can still make nondeductible contributions up to the annual allowable maximum. IRA invest-

ment earnings retain tax-deferred status regardless of the tax treatment of new contributors.

What Are The Withdrawal Rules For IRA's And Keogh's?

You will be penalized if you withdraw contributions you make to an IRA or Keogh plan unless you are 59½ years of age or older. The penalty for early withdrawal is 10 percent—unless you become totally disabled or die. If you die before age 59½, funds in the account will be distributed to your heirs either as a lump sum or in monthly installments. You must begin withdrawing the funds by the year after you reach age 70½.

Who Administers IRA's and Keogh's?

Financial institutions, stockbrokers, and life insurance companies administer the plans. Some plans have more administrative costs than others; some give higher rates of interest. All plans invest your money in different ways. Once you have an IRA or Keogh with one institution, you can switch your account to another institution to take advantage of changing economic conditions. For more information ask your bank or savings and loan institution representative. If you are interested in tax explanations, request that your local IRS office send you Publication 590, "Tax Information on Individual Retirement Arrangements."

How Does A Keogh Differ From An IRA?

Retirement plans for the self-employed are commonly referred to as "H.R. 10" or "Keogh" plans. Keogh plans are now on a more equal footing with corporate pension plans. Under this plan, a self-employed person may take a tax deduction for annual contributions to the plan, limited to the lesser of $30,000 or 25 percent of earned income.

A self-employed person who chooses a Keogh plan must also make tax-deductible contributions for the benefit of any of his or her employees. A self-employed person has the option of setting up an IRA in place of a Keogh plan. Under this type of retirement plan, the self-employed person does not have to make contributions for the benefit of his or her employees. However, the allowable deduction is much lower—$2,000.

Bonds

Bonds are issued by a corporation, municipality, or the Federal Government as a way of raising funds. They are sold in stated dollar values and pay a fixed interest rate.

Bonds can be redeemed at full value when they mature, usually from 10 to 25 years or more. If you cash them in early, however, you may have to sell at a loss. Bonds are a conservative investment offering low risk as well as assured income. Don't buy bonds if you're interested in turning a quick profit.

U.S. Government.—These bonds (not to be confused with U.S. Savings Bonds explained later in this section) can be purchased in varying denominations and are considered very safe, for it's highly unlikely that the Federal Government would default. You can buy longer term bonds, intermediate Treasury notes, or short-term Treasury bills, which are all subject to Federal income tax but not

to State or local taxes. For short-term Treasury bills, the minimum investment is $10,000; notes maturing in less than 4 years are usually offered in a minimum denomination of $5,000; notes maturing in 4 years or longer are usually available in minimum denominations of $1,000.

Corporate.—Issued by companies, these bonds vary in quality. Ratings range from high (AAA) to low (C). Quality should be the first criterion in selecting a corporate bond; financial experts advise you to consider only bonds rated BBB or above. AAA bonds are usually issued by large, stable corporations, and are the most risk-free. Bonds at the lower end of the scale usually have higher yields, but carry a higher risk. The minimum denomination is generally $1,000. Corporate bonds are subject to Federal, State, and local taxes.

Municipal.—These bonds are issued by cities, States, counties, and towns, usually for funding specific projects like the building of a hospital or school. They are attractive to people in higher tax brackets because the bonds are free from Federal income tax and often from State and local taxes as well. While their return is usually low—perhaps 5 to 7 percent—this low return is offset by the tax exemption.

Municipal bonds are relatively safe. They carry ratings from AAA to C. Ratings for both corporate and municipal bonds are assigned by two independent rating services—Standard and Poors, and Moodys. Ratings give the prospective purchaser an idea of the likelihood that the corporation or municipality will default. Check with your stockbroker or library to find out ratings for specific bonds.

Zero Coupon Bonds.—Zero coupon bonds are becoming increasingly popular for long-term investments. Like any bond, a zero coupon bond is a debt obligation issued by a corporation or by an agency of the Federal, State, or local government. However, unlike traditional bonds, zeros are sold at a price well below the face value. At the end of a specified period of time, the interest is added to the initial purchase price and you receive a much larger amount than your initial investment. The entire interest amount is paid upon redemption.

The advantages of zeros are automatic and assured growth (if you invested $1,000 in a bond that was paying 9 percent interest, your bond would be worth approximately $2,000 in 8 years and $3,000 in about 15 years). A major drawback is that there is no way of knowing what the future value of the bond will be prior to its maturity. Also, although you receive no cash payments during the life of the zero coupon bond, you are taxed as if you do.

U.S. Savings Bonds.—Safe and convenient, savings bonds are available in small denominations; however, they usually do not yield a high rate of interest. They're available for purchase at any bank or post office; some employers offer savings bonds through a payroll savings plan. You can cash in the bonds at any time, but there are penalties for early withdrawal.

The EE bond is a nonnegotiable security against the credit of the U.S. Treasury; once it is purchased it cannot be sold except back to the government at a fixed price. EE bonds are sold at half their face value and are available in denominations ranging from $50 to

$15,000. Thus you can buy a savings bond for as little as $50, making them a practical choice for the investor with only a minimal amount of money to set aside.

The profit you make on an EE bond is a reflection of the appreciation and value of the bond itself. EE bond interest is collected in a lump sum when you cash the bond in. You must hold onto your EE bonds for 5 years in order to receive the variable interest rate. This interest is subject to Federal tax but is exempt from State and local taxes.

Profits for HH bonds are collected and taxed differently. HH bonds pay dividends twice a year while the actual value of the bond remains constant. HH bonds are available only by exchanging EE bonds. Taxes for HH bonds are collected only during the year the bonds earn interest, so people often convert their EE bonds to HH bonds instead of cashing them in.

Stocks

Common stocks represent part ownership in a company and should generally be viewed as long-term growth vehicles. When you buy stock, you participate in the ups and downs of the company and receive a "piece" of the profits in the form of dividends-if the company does well.

Some cautions about common stocks: Every stock carries a degree of risk. Some stocks are very secure and routinely pay good dividends; others are more volatile. Remember, the past track record of a stock doesn't insure its future performance. You should deal with a reputable stockbroker and firm when purchasing or selling stocks and ordinarily you will pay a sales commission to a broker.

A preferred share in a company has a stated income and you get a fixed return. Preferred stocks are more secure since the holders of these stocks get paid before common stockholders. In return for steady income and reduced risk, you lose the growth potential of common stock.

Mutual Funds

If you don't have the time, inclination, or expertise to make decisions about your investment or you have only a small amount to invest, mutual funds are an alternative you may wish to consider.

Mutual funds pool your assets with those of many other small investors to offer balance and diversification of holdings. A professional manager takes care of investing your group's money and frees you from worrying about it: the manager routinely charges a fee each year to administer your funds.

There are as many kinds of mutual funds as there are investment vehicles. Some funds invest for growth; others for income. Your money could be put into stocks, bonds, other instruments, or a combination. Some mutual funds specialize in tax free income sources.

You should investigate a mutual fund's objectives, the instruments it invests in, and its current and past performance record. But just because a certain fund has done well in the last several years is no indication or guarantee it will do well tomorrow.

Another feature to consider is whether a fund has a "load" or a "no-load" feature. You should be aware that load funds charge you a fee initially as well as every year; no-load funds charge no fee at the outset, but they may charge more for service later on.

For more information, read about fund ratings in financial publications and seek the advice of a stockbroker.

Collectibles

Collectibles, such as gold, silver, art, and antiques have value and potential for growth. But there's a catch—they don't guarantee you any income from interest and dividends. If you have to sell them quickly, you may have difficulty finding a buyer willing to pay the right price at the right time, and you'll generally need to pay to insure these valuables against theft or loss.

Real Estate

Where Should You Live In Retirement?

If you own a house, it has almost certainly appreciated in value and kept pace with inflation better than most other investments. If you hold on to your home, you'll protect the equity you've built up and still be free to sell later on.

You may feel, however, that your house is too large and saddles you with responsibilities and the expense of upkeep and repair. There's no sure rule that says renting is preferable to owning or vice versa. Property taxes and utility costs may rise unexpectedly for the homeowner, but rents and condominium fees can also rise without warning.

Before you make any decision about the type of housing and the geographical region you prefer in retirement, total how much it costs you each month to live in your present home. A general guideline states that total housing costs should represent no more than one-third of your net income. Then compare the costs of renting, ownership of a smaller home or condominium, and the cost of housing in another area. Seek sound advice before deciding to sell or move. Also, visit the area you are considering for an extended period of time during different seasons before actually buying in order to determine whether you will feel comfortable in the new location.

An important factor for homeowners to consider: if you or your spouse is 55 or older, you're entitled to a once-in-a-lifetime exclusion from Federal income tax of up to $125,000 profit on the sale of your home. Since this exclusion is allowed only once to a homeowner, it should be considered very carefully in making present and future home buying plans.

Investing in Real Estate

While you may want to consider real estate (other than for residential purposes) as an investment, you should do so only after careful research and analysis. By renting out your home after you retire, or by buying rental property, you may have the opportunity to supplement your income, be eligible for certain tax breaks, and have your investment appreciate in value. However, this option

poses many potentially serious risks and you should approach it with caution.

One of the major factors you will need to consider is that there is no guarantee your investment will appreciate in value. In many parts of the country, over the past few years, the real estate market has turned down, providing minimal profits, or a net loss. You will also need to consider that you could have difficulty getting the price you want if you need to sell your property in a hurry. As a landlord, you'll have the responsibility for managing the property, unless you entrust the management to a real estate agent for a fee. Don't underestimate the possible significant costs and headaches associated with general upkeep of the property, unexpected repairs, tenant-management disputes, and other matters.

If you are considering buying undeveloped land as an investment you should take into account that you must pay taxes on your land, even though you are receiving no income from it. You should also be aware of land fraud deals. The law prohibits you from being defrauded, but buying land you haven't seen and done complete research on is foolhardy. Before purchasing any property, look it over and have your lawyer read the fine print in your contract.

While real estate can be profitable, it can be risky, it can tie up your money, and it can be a drain on your time and savings. Do not undertake real estate investment without careful study and a full consideration of the merits and the potential risks involved.

Home Equity Conversions

For many older homeowners, the equity in their home represents their greatest asset. Yet, oftentimes many of these individuals find that because they are living on fixed incomes, inflation makes it difficult for them to afford property taxes, the costs of maintaining and repairing their home, or other major expenses associated with day to day living. Until recently, the equity in these homes was inaccessible as a source of cash, except through the sale of the house or through conventional bank loans. However, with the advent of innovative home equity conversion loans, some older individuals are now utilizing the equity in their homes as a source of income without having to move or sell the house.

Although there are a number of different types of home equity conversion plans, they all operate on the same principle of providing a source of income for homeowners while permitting them to remain in their homes. Some plans involve the actual sale and transfer of the property to a lending institution; others do not. Some provide income only for a specified period of time, while others guarantee a level of income for life. Other types of plans involve an institution loaning you money on the value of your home. This loan is then used to purchase an annuity which can provide you with a monthly income. When you move or die, your home is sold and the proceeds are used to pay off the loan. If there is any remaining balance, it goes to your estate.

In short, there are a number of different types of equity conversion plans, each with different characteristics and requirements. You should be aware that they are not suitable for everyone. Given the complex financial mechanisms associated with these plans, as well as the serious difficulties which could arise if you do not fully

understand the possible consequences of these arrangements, it is critical that you receive sound expert legal advice *before* you enter into any agreement.

Medical Insurance

Medicare

Don't underestimate the value of Medicare—the program is essential to most older persons in these days of skyrocketing medical costs. Medicare is a two-part Federal health insurance program for men and women 65 and over, and the severely disabled under 65. You'll receive information about Medicare when you apply for Social Security. However, *you do not have to be retired to receive Medicare benefits. If you choose not to retire before reaching age 65, you should still apply for Medicare at your local Social Security office 3 months before your 65th birthday. Only then will your coverage begin as soon as you are eligible.*

What Does Medicare Cover?

You are automatically eligible for the Hospital Insurance Program (Part A) at age 65 if you are eligible for Social Security; other persons 65 or over may obtain coverage by paying a monthly premium (estimated to be $156 in 1989). Part A covers hospital inpatient services such as semi-private room accommodations, routine nursing care, intensive care and other services and supplies normally provided to hospital inpatients. Beginning in 1989 these services are covered for an unlimited number of days of hospital care subject to a one-time deductible for the first hospital admission during a calendar year (estimated to be $560 in 1989). In addition, Part A covers care in a skilled nursing facility; beginning in 1989, up to 150 days are covered subject to a copayment for the first 8 days of care (estimated at $25.50 per day in 1989). Part A also covers home health care. Finally, care in a hospice is covered for persons with a terminal illness.

The Supplementary Medical Insurance Program (Part B) is a voluntary program for which you pay a monthly premium (estimated to be $31.90 in 1989). Your premium covers about one-quarter of the cost of Part B coverage. The Federal Government, in effect, contributes the remainder of the cost. Since your premium is low compared to the value of your benefits, it is sensible to elect Part B coverage. Services covered include outpatient treatment, diagnostic tests, a large portion of physicians' fees, physical therapy and many other services. Part B also covers medical equipment. Part B does not cover all of the costs of these services; you have to meet an annual deductible ($75) and pay approximately 20 percent of the cost of most covered services once the deductible is reached.

There will be some major changes in Medicare as a result of the recently enacted "Medicare Catastrophic Coverage Act of 1988." Beginning in 1990, if your out-of-pocket expenses exceed $1,370 for the year, the Medicare program will pay most of the additional costs of covered services. Starting in 1991, the program will cover a portion of the cost of outpatient prescription drugs if you meet a separate annual deductible ($600).

The expansion of benefits is partially financed by an increase in your monthly Part B premium (a $4 increase to $31.90 in 1989). Also beginning in 1989, you will have to pay a supplemental premium if you have Federal income tax liability for the year ($25.50 for each $150 of taxes owed for 1989) up to a maximum of $800 for single individuals and $1,600 for couples.

Even with the additional benefits, however, Medicare won't cover all health care costs. Routine physical check-ups, nonprescription drugs, eye glasses and exams, routine dental care, hearing tests and most long-term care assistance are some of the services that are *not* covered. For income tax purposes, be sure to keep a record of all out-of-pocket medical costs you have had to pay.

Ask your local Social Security office to send you "A Brief Explanation of Medicare," which gives a quick overview of the program and its benefits. "Your Medicare Handbook" provides an even more in-depth treatment of all aspects of the program. Both booklets are *free*.

Medicaid

Medicaid is a Federal-State entitlement program that pays for medical services for persons in financial need. Each State designs and administers its own Medicaid program, setting eligibility and coverage standards within broad Federal guidelines. As a result, there is substantial variation among the States in terms of persons covered, and the types of benefits offered.

You qualify for Medicaid if you are aged, blind or disabled, and meet certain income and resource tests. If you are eligible for Supplementary Security Income (SSI), you will probably qualify for Medicaid.

Medicaid pays for medically necessary services, which are furnished by qualified providers. States are required to provide certain mandatory services, which include hospital and physicians' services, and care in a skilled nursing facility (SNF). States may also offer any of a broad range of "optional services" including prescribed drugs, eyeglasses, and services in an intermediate care facility (ICF). States may place limits on the coverage of all services, such as the number of covered hospital days of the number of physicians' visits.

With respect to long term care, Medicaid provides coverage of long term care nursing care and, in some States, home and community-based care for those who meet Medicaid eligibility requirements. As such, Medicaid remains the major public program for covering long term care.

While some people will meet categorical eligibility requirements, many individuals become eligible for Medicaid by having major health and long term care expenses which cause them to spend their income and liquid assets (not including their home) down to the Medicaid level set by each State. In the recently enacted "Medicare Catastrophic Coverage Act," changes were made to better protect the income and assets of the spouse of a Medicaid nursing home resident.

You should check with your local Medicaid office to see how these changes might affect you and to determine whether or not

you or your spouse are eligible for Medicaid. Look in the blue pages of the phone book under "Social Services" for your county.

Veterans' Health Benefits

The Veterans' Administration (VA) provides hospital or outpatient care at regional facilities when needed for medical conditions. VA hospitals give priority to certain veterans; one of the priority categories is veterans receiving VA pensions. Outpatient and ambulatory care are furnished within available resources on a priority basis. As part of outpatient treatment, you may be eligible for necessary home health services. Contact your regional VA office for further explanation of benefits.

Other Medical Insurance

You may wish to purchase supplemental health insurance to fill gaps left by Medicare. Policies designed to complement and supplement Medicare are known as "medigap" policies. Keep in mind, though, that even with a supplemental policy you will have to pay some expenses yourself. Inquire whether your employer's group policy can be continued after you retire. Group policies are usually cheaper than individual ones.

You probably do not need more than one good policy to supplement Medicare. Shop around for the best values. Don't over-insure yourself. Beware of unscrupulous salespersons who try to sell you more policies than you need. If you want impartial advice about choosing a policy, check with your State's insurance department or the consumer protection agency.

Employment After Retirement

Should You Consider Employment As An Additional Source of Income After You Retire?

In 1987, only 16 percent of men and 7 percent of women over 65 were in the labor force. However, many retirees may find it necessary to add to their retirement incomes through extra employment.

Make an honest appraisal of your retirement goals. Do they include travel, new hobbies, or other costly pursuits? Or are your objectives more modest? Also, consider the satisfactions your job gives you. Are you going to miss the daily routine and the business contacts? Or do you look forward to retirement as freedom from a paid job?

Before you seek a job, assess your talents realistically. Be resourceful. Do you need to brush up on rusty skills, take a refresher course, or learn about the mechanics of setting up a small business?

Investigate free employment counseling offered by your State and community (some are tailored especially to retirees). These counseling agencies can help you write a resume or learn about interviewing techniques. Ask other retirees how they found their jobs. Look for private employment agencies that specialize in locating jobs for older persons (but remember that some charge a fee).

Will It Be Harder For You To Find A Job Because You Are Older?

It is often more difficult for an older person to find a job, but with the advent of age discrimination laws and improving attitudes toward older workers among employers, the job picture is getting better. Studies show that older workers in many cases have better work and attendance records than their younger counterparts.

There is a Federal law prohibiting employment discrimination on the basis of age. The Age Discrimination in Employment Act protects you from being passed over in hiring or from being fired solely on the basis of age. If you believe that this law has been violated, you should contact the Equal Employment Opportunity Commission office nearest you. (There are 48 offices nationwide). You may first want to contact an attorney.

How to Plan Your Estate

Your estate represents your assets (what you currently own) minus your liabilities (what you owe). An estate is also defined as an entity you leave to your heirs. Your estate should provide for yourself and your family while you're alive and for your heirs when you die.

Why Do You Need An Estate Plan?

Many people do not realize that how they control their assets during their lifetime affects how their assets are handled after death. Estate planning involves examining your present financial status and making modifications to ensure that your property will be distributed according to your needs and desires.

Assets should be arranged so that they can be administered and disposed of without causing undue difficulty or unnecessary expense and delay. By setting forth binding instructions—in a carefully thought out estate plan—you ensure your wishes will be carried out.

People often put off estate planning because they don't want to face the unpleasant thought of death. However, by failing to seek qualified advice in setting up a comprehensive estate plan, you could cause those you love unnecessary hardship after you die. Also, arranging your affairs through an estate plan can minimize the probate and administrative costs associated with your estate.

Steps In Estate Planning

Estate planning requires time and careful consideration. The following steps should make the process seem less overwhelming.

1. Get together your important documents as discussed on page 2 of this guide.
2. Discuss and coordinate wishes with your spouse and family. Decide whom you want to benefit after your death. Choose an executor for your estate (see page 38).
3. Seek professional assistance—such as a lawyer who specializes in estate planning or a financial planning counselor. Word of mouth is a good way to locate a professional whom you can trust to advise you on sensitive financial concerns. It is essential that you use great care in selecting your financial adviser. Check references and be sure to ask about fees beforehand.

4. Use your professional estate planner to help you:
   —understand how you currently hold ownership to your assets (cash, investments, life insurance, property); and
   —devise a *plan* for handling your assets while you're alive and after your death.

Bring your essential documents and your net worth statement to the first appointment. This will save you time and money.

Joint Ownership

Joint ownership is a traditional way for married couples to hold property together, although any two persons can be co-owners. Under the most frequently used type, joint tenancy with the right of survivorship, two people own certain assets—like real estate, investments, or bank accounts—in both names. When one owner dies, ownership passes automatically to the other without delay. Definitions of joint ownership vary from State to State, so check specific joint ownership or community property stipulations in your jurisdiction.

Why Do Many People Find Joint Ownership Attractive?

Ownership in common offers convenience: for example, either partner can withdraw funds from a joint bank account. A possible plus is that property held in joint tenancy can avoid probate, thus bypassing the delays and costs of estate settlement. In some States, it lessens the bite of inheritance tax.

What Are The Disadvantages?

Joint ownership should never be a substitute for a will although it may seem more convenient. Property held jointly does not usually avoid Federal estate tax; on the contrary, such property could end up being taxed twice—once when the first owner dies and again at the death of the survivor.

Further, control of jointly held property can present problems. One person might dispose of property without the other's knowledge. Or either co-owner could be prevented from selling assets without the other's consent. A dispute such as a divorce or separation could pose obvious difficulties in disposing of jointly held assets. In some States, jointly owned bank accounts could be closed and safety deposit boxes sealed after one owner's death.

It is important to understand the positive and negative implications of joint ownership. Many financial experts advise caution—perhaps using joint ownership only for your checking account and house ownership.

Trusts

Should I Consider Setting Up A Trust?

A trust is a legal arrangement under which all or part of your assets are held by a trustee, managed as specified by your wishes, and distributed for the benefit of yourself or your heirs. A trust can conserve property, minimize taxes, and protect and provide income for your beneficiaries. Trusts aren't only for the very wealthy; in some cases, they make sense for people of modest means. If you're contemplating a trust, get advice from trust offi-

cers of several banks and from an attorney. Many banks will not handle a trust of under $100,000.

What Are Some Types Of Trusts?

A *testamentary trust,* created by your will, becomes effective after you die. It is most often established to provide income for your beneficiaries while limiting, to some extent, the ways in which assets are managed. Testamentary trusts are commonly used by parents to provide for their children in the event of the parents' death.

A *living trust* operates while you're alive. It frees you from money management worries, yet you can retain full control of your money. The person who establishes the trust makes all investment and trust management decisions and has full use of trust assets. Such trusts are useful to provide retirement income. Living trusts can either be irrevocable (incapable of being terminated) or revocable (terminated at time).

Revocable living trusts are beneficial if the person who established the trust becomes incapacitated by accident or illness. A designated successor trustee—who is usually a family member—steps in to manage the trust assets on behalf of the disabled person. When the person who set up the trust dies, the assets are distributed under provisions of the trust directly to the beneficiaries, without going through the probate process.

What Are Some Advantages And Disadvantages Of Trusts?

Your assets will be managed by yourself, your spouse, family members or professionals and protected from careless or hasty use by your heirs. Trusts can offer flexibility and be used to provide specifically for a spouse, minor children, grandchildren, or aged parents. But a trust can tie up your money, and the administering financial institution charges a fee to create and manage your trust. These charges could cancel out the advantages of setting up a trust if your estate is small.

What Are Beneficiary Accounts?

You can provide for your heirs through what are sometimes known as "pay-on-death-accounts." A legal agreement is developed which specifies that upon your death, the assets in your checking or savings account or IRA will go to a designated beneficiary. These types of accounts are not usually subject to probate.

Power of Attorney

A power of attorney is a legal document that enables someone else (your agent) to act on your behalf. It can be given to anyone you choose—a spouse, family member, friend, or lawyer. A power of attorney can be general or limited in scope. A limited power of attorney gives your agent authority over specific activities, such as writing checks or making decisions about your house. A general power of attorney usually authorizes the agent to act in all areas of your affairs. Since a general power of attorney is very broad, it should only be given in extreme circumstances.

Durable Power of Attorney

A power of attorney terminates when the person who gave the power becomes legally incompetent or dies. However, all States now have a durable power of attorney, which remains in force after the person becomes incapacitated. A durable power of attorney can become effective immediately or only upon loss of capacity (a "springing" durable power of attorney). A durable power of attorney can be written for financial and property matters, as well as for personal decisions.

A handful of States have a separate "durable power of attorney for health care," which allows your agent to make your health care decisions, such as whether to use life-support systems, choosing medical procedures, approving medications, and nursing home placement. You could also use a "living will" to specify that you do not want your life prolonged by artificial, extraordinary, or heroic measures. These documents, signed while you are competent, allow your desires to be carried out in the event that you become incompetent.

Advantages and Disadvantages of the Durable Power of Attorney

If you are unable to act on your own, a durable power of attorney allows someone you trust to take care of matters important to you. You can be assured that your personal and property affairs will be handled according to your wishes. A durable power of attorney that permits a spouse to act for a disabled or incompetent spouse can be particularly helpful. In addition, you can avoid the more drastic step of a court-appointed conservator or guardian.

There have been instances throughout the country in which a power of attorney has been abused. If you are giving a durable power of attorney, use extreme caution to ensure that the agent you select will not take advantage of your incapacity, and use the power of attorney to your detriment. A power of attorney arrangement is not supervised by anyone, unless the court is asked to do so.

Wills

A surprising number of people ignore making a will. Don't make the mistake of thinking your estate is too small—you need a will even if you have very little to give away. A will is especially important for those portions of your estate that are not controlled by other legal documents.

Your will designates how, to whom, and by whom your assets will be distributed after you die. You should understand that a will does not necessarily control all of your property after you die. A will is superseded by such legal arrangements as revocable living trusts, joint tenancy, and "pay-on-death-accounts." Having a proper will makes it much easier for your heirs to settle your estate. It can also shorten the time for your heirs to receive their inheritance, and it can save money in taxes and other estate settlement expenses.

It is strongly recommended that a will be drawn up with the guidance and advice of a lawyer. Handwritten (holographic) wills are more likely to be challenged, and should be examined to ensure

they are not invalid. About half of the States do not recognize holographic wills at all. Realize that you may have to revise your will from time to time if circumstances change.

What If You Were To Die Without A Will (Intestate)?

State intestacy laws vary widely, but generally speaking, your property might not go to the persons(s) whom you would have chosen. Your assets, for example, could end up as the property of the State. Or, if you were married and left children, half of your estate could go to your spouse and the remainder could be divided equally among the children. A will is important because it lets *you* choose how your assets will be divided, not the State. You should find out about your State's laws pertaining to wills, such as "spousal share" laws, which prevent one spouse from disinheriting the other spouse.

When you make a will you can specify who will administer your estate. If you die without a will, the court will appoint an administrator. Administration costs can be high and reduce an estate's value.

How To Plan Your Will

As with other components of estate planning, you should discuss your will with your family. Some experts advise that husbands and wives should have separate wills. Because personal and family circumstances change, you should periodically review your will to make sure that it still reflects your current wishes and needs.

A lawyer who specializes in estate planning can prepare your will, and make sure that it is properly witnessed and signed. After the will is drawn, your lawyer retains a copy. You should keep a copy at home and make its whereabouts known to family members.

What Is An Executor?

An executor is the person you name in your will to be responsible for carrying out its instructions. Your spouse, friend, banker, or lawyer could serve as executor. The person selected should be competent in handling money matters and willing to invest a good deal of time.

You might prefer to name "co-executors" to settle your estate in tandem. One partner could be a relative, the other a banker or lawyer. Executors usually receive a fee for their services; a family member who serves as an executor may choose to waive payment.

What Is Probate?

After a persons dies, his or her will is presented in probate court to be "proven"—to prove the document is legal and valid. In the probate process, the will is presented to court and an inventory and appraisal of assets is made. The executor must satisfy the court that all bills and taxes have been paid, and that creditors of the estate have been notified and given an opportunity to present their claims. The executor is then authorized by the court to distribute property and carry out the will's instructions. Probate can be costly and take a long time, as much as a year or more.

Persons with small estates can often streamline or avoid the probate process. Most States now provide one or more alternatives to

the regular probate process for estates with assets below a certain amount. Asset limits and procedures vary from State to State, but some common characteristics are: traditional court procedures are not followed, an executor or administrator is not involved, and an attorney is often not necessary. These reforms can make probate an inexpensive procedure that protects creditors and quickly distributes the estate.

What About Estate Taxes?

Because of major revisions legislated by the 1981 Economic Recovery Tax Act, small estates can avoid paying Federal estate tax altogether. The recent law removes the tax burden from small- to medium-sized estates through a tax exemption. Under current law this amount increased to $600,000 for deaths occurring after 1987.

Your heirs may have to pay State inheritance or estate taxes. Beneficiaries are also liable for capital gains tax on inherited property—such as real estate or stocks—that they sell at profit.

AN IMPORTANT NOTE: If you made your estate plans before January 1, 1977, you may wish to have them reviewed and updated in light of changes brought about by the 1976 Tax Reform Act.

What Are Some Ways To Reduce The Tax Bite On My Estate?

You may wish to reduce assets while you're alive and cut down the estate tax bite. Here are some alternatives: Generally, under current law, you may transfer unlimited amounts to your spouse, tax-free, either by gift or at the time of death through the estate. Each taxpayer can also make gifts of up to $10,000 per year, tax-free, to as many recipients as he or she wishes (called the "annual exclusion"). Or you can make contributions to charity. Check with a professional for advice.

Letter Of Last Instructions

Everyone should prepare a letter of last instructions to be opened at the time of death. Such a letter would inform your survivors and executor of the location of your important documents and make your personal wishes clear. Consider that when you die your survivors will be under severe emotional stress and will not need the added burden of trying to unearth important documents or straighten out affairs left in confusion.

What Information Should My Letter Include?

You should list the whereabouts of all important papers: your will; birth and marriage certificates; insurance policies; bank passbooks; and proofs of ownership, such as house deed and stock and bond certificates. The letter should enumerate death and pension benefits to which you're entitled, financial advisers whom survivors can consult, outstanding debts, the location of your safety deposit box and checking accounts. In addition, express your wishes concerning funeral and burial arrangements.

PROFESSIONAL ADVICE

The most frequently consulted types of advisers and their main areas of expertise are:

Tax Accountant: Helps with estate planning, minimizes estate taxes, plans for retirement tax breaks, prepares yearly tax returns, offers all-around financial advice.

Lawyer: Draws a will, handles real estate deals, defines contract terms, draws up contracts, sets up trust funds.

Insurance Agent: Sells life, health, and homeowners's insurance policies and annuities; gives advice on your general financial situation.

Stockbroker: Gives advice on and sells stocks, bonds, and mutual fund shares; offers overall financial and investment strategies.

Financial Planning Counselor: Gives comprehensive financial, investment, and estate planning advice.

Realize that the areas of expertise of the various professionals often overlap. You should always inquire about their fees and rates before utilizing their services.

Some professional advisers, such as stockbrokers and life insurance agents, have a vested interest: Their ultimate aim is to sell you something. The advice you receive will in most cases be ethical and first-rate, but don't expect it to be completely impartial.

Conclusion

Many people are fearful of not having enough money to live comfortably during retirement. This fear often stems from a lack of knowledge about how much money will be needed in retirement and where it will come from. If you plan ahead, there should be no reason to fear; adequate planning can help you make your retirement years financially secure.

Financial planning is critically important since you can expect to live several years after you retire. In 1900 the average American life expectancy at birth was 47. Today it is 71 years for men and 78 for women. The good news is that these figures will continue to rise.

This pamphlet has presented steps that you can take now to start planning for retirement. Your goal should be a retirement income of between 65 percent and 75 percent of your preretirement income. Once you have analyzed your current income and expenses, you will be in a better position to project your future financial needs. By determining what proportion of your income will come from Social Security, other government programs, and pensions, you will then know how much must come from savings and investments to make up for any shortfalls.

Remember that inflation may diminish your purchasing power in future years. The key to combating inflation is to plan now while you are at the height of your earning power. Once you have an initial financial plan, it is easy to update it periodically. The earlier you start planning for retirement the better; but it is never too late to begin.

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